

VZCZCXRO7018  
PP RUEHDE  
DE RUEHMK #0568/01 0981217  
ZNR UUUUU ZZH  
P 081217Z APR 06  
FM AMEMBASSY MANAMA  
TO RUEHC/SECSTATE WASHDC PRIORITY 4373  
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE PRIORITY  
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY  
RHMCSUU/DEPT OF ENERGY WASHINGTON DC PRIORITY  
RUCPDOG/USDOC WASHDC PRIORITY  
RUEHC/SECSTATE WASHDC PRIORITY 4374

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E.O. 12958: N/A  
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BA  
SUBJECT: BAHRAIN: INVESTMENT CLIMATE STATEMENT 2006

REF: 05 STATE 202943

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A.1 Openness To Foreign Investment  
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Bahrain is widely considered to be one of the most open countries in the region and generally follows an open-market philosophy. The country has been able to make significant progress in its ongoing process of economic liberalization, diversification of national income, and openness to investment policies in recent years. Bahrain has already amended existing legislation and promoted new laws aimed at facilitating and encouraging foreign investment, and senior government officials believe it is imperative to continue working toward economic diversification and increase the volume of investment in the services, tourism, industry, and the financial sector. Officials make frequent public statements citing the importance of foreign direct investment, bolstering the private sector's role in the economy, lessening the burden on government, and eventually decreasing government subsidies.

The 2006 Heritage Foundation's "Index of Economic Freedom" ranked Bahrain 25th, marking a decline from the previous year's ranking of 20th. The ranking reduction was attributable to the decline of its monetary policy score, as a result of a 0.04 percent jump in its annual inflation rate, and a decline of its IPR score, "upon more detailed analysis and based upon the fact that the judiciary is not fully independent from the King." The Index rated Bahrain as "mostly free." Even so, the Heritage Foundation recognizes Bahrain as "the freest (economy) in the region."

The United Nations Conference on Trade and Development's (UNCTAD) World Investment Report 2005 ranked Bahrain as the highest and best among all Arab countries for its FDI performance, noting an FDI influx of \$865 million in 2004, a 41.1 percent increase from 2003, and third among all Arab countries for its potential FDI performance.

The UN Economic and Social Commission for Western Asia (ESCWA), recognized Bahrain's 7 percent rate of real economic growth in 2005, partially attributable to a strong surge in oil prices, as the highest in the Arab world.

The Government of Bahrain is determined to actively increase the entry of new private firms in an economy that has long been dominated by parastatals (outside of the financial services sector). Following the creation of a Supreme Privatization Council in the spring of 2001, the King of

Bahrain, Shaikh Hamad bin Isa Al-Khalifa, issued a decree in October 2002 laying out guidelines privatizing telecommunications, transportation, electricity, water, ports and airport services, tourism, oil, gas and postal service.

Bahrain's Crown Prince, Shaikh Salman bin Hamad Al-Khalifa, is also an outspoken proponent of privatization in Bahrain. The Crown Prince was entrusted with the King's labor, economic, and training/education reform initiatives in 2004 and assumed the Chairmanship of the Economic Development Board (EDB). Following ministerial changes in January 2005, the King issued Royal Decree No. 31 for 2005, amending article 9 of 2000, delegating the national economic and investment portfolio to the EDB, which had formerly served as an economic think tank. Under the Chairmanship of the Crown Prince, the EDB was entrusted with the implementation and execution of a three-tiered reform initiative, focusing on labor, economic, and education reform. The EDB's main strategic functions are to promote investment in key economic sectors, support and encourage foreign investment, attract foreign companies to establish a presence in Bahrain, support and develop local entrepreneurial skills, simplify and eliminate investment obstacles, and secure Bahrain's economic leadership and competitiveness as a regional business and commercial hub.

Following the King's decree to privatize government-controlled sectors, the first key sector to be liberalized was telecommunications, which ended the monopoly of the 33.3 percent state-owned telecom service provider, Bahrain Telecommunications Company (Batelco). Under Legislative Decree 48, the Telecommunication Law of 2002 established the Telecommunication Regulatory Authority (TRA).

In accordance with article 15 of the Telecommunication Law, the National Telecommunication Plan was issued in 2003. The

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plan serves as a guideline for the liberalization process and addresses licensing opportunities, Universal Service Obligations, the Bahrain Internet Exchange (BIX), Batelco,s licensing activities, and the government's role in Batelco. Under the National Telecommunication Plan, and in accordance with the government's progressive elimination of Batelco,s monopoly, an unlimited number of licenses could be issued in ten areas of telecommunication service. However, the Plan also provided for limitations on the number of licenses issued for Bahrain Internet Exchange and mobile telecommunications services. It stated, "In the mobile area, one license will be issued to Batelco, and one further license will be issued to a market entrant under the provision that, in normal circumstances, further licenses shall not be issued for a minimum of two years from date of award." (MTC-Vodafone was granted the mobile provider license in 2003.) According to TRA figures, as of January 2006 the following telecommunications licenses were granted:

- two Individual Mobile Telecommunication Licenses
- ten International Telecommunication Facility Licenses (IFL)
- twenty six International Telecommunication Services Licenses (ISL)
- five Individual National Fixed Service Licenses
- eight VSAT Licenses
- one Individual Paging Service Licenses
- thirty Value Added Services (VAS) "Class" Licenses
- one Individual Public Access Mobile Radio Service License
- one Bahrain Internet Exchange License
- sixteen Internet Service Provider Licenses (ISP)

-- two Frequency Licenses

-- three Temporary WiFi Frequency Licenses

Following the privatization of public transportation service in 2003, CARS, a Bahraini-UAE joint venture, began operating later that year with 41 new, air-conditioned, 52-seat buses. This represented a \$10 million investment in the local economy.

The Kingdom's first independent power plant project (IPP) was also successfully tendered and awarded to the equally-shared Belgian-Gulf consortium Tractebel EGI and Gulf Investment Corporation (GIC) to design, build, own, operate, and maintain the 1,000MW-a-day, \$498.4 million Al Ezzel Independent Power Producer (IPP). Under the contract, the government is to pay the amount in 20 years. The first phase, with a production capacity of 400MW, is set to be completed in April 2006. The second phase, with a capacity of 600MW, is projected to be complete by 2007. The project is expected to create 120 jobs, 100 of them for Bahrainis. The proposed network is part of a \$26.5 million upgrade and setup of new transmission grids, linking Al Ezzel station with the government's main power network. The government also has plans to expand its distribution network and award contracts for three new sub-stations, in anticipation of the extra electricity generated by the plant.

In January 2006, the \$1.25 billion Hidd Power and Water Station project was sold to an international business conglomerate of British power supplier International Power, Japanese Sumitomo Corporation, and Belgian electricity company Suez Energy International (Suez Tractebel). The privatization of Hidd Power and Water Station reinforces the government's privatization strategy, which is aimed at enhancing the private sector's role in Bahrain's development process and fostering a positive business-based climate by attracting more local and foreign investments.

A 25-year port management bid for the concession to operate the Mina Salman port and the new Khalifa Bin Salman Port was awarded to a consortium of Dutch-based APM Terminals and Bahrain-based Yusuf Bin Ahmed Kanoo Holdings WLL in May 2005.

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Under the privatization law, the government's commitment to gradually divest of its interests and stakes in certain companies is intended to increase the private sector's competitiveness. The Public Shareholding Directorate at the Ministry of Finance contracted the consulting arm of UK-based HSBC to carry out the consultancy and survey on the sale of the government's shares in Batelco. Some National Assembly lower house members (Council of Representatives) had criticized the government's divestiture of the remaining state holdings in Batelco. On January 8, 2006, the Cabinet approved the formation of a \$5.31 billion holding company to control the government's commercial and investment interests in 22 local and 9 foreign companies. The firm will have a paid up capital of approximately \$3.44 billion, and an authorized capital of approximately \$5.03 billion.

In support of Bahrain's status as a respected financial center, the Bahrain Monetary Agency (BMA) meets the highest international standards of financial regulation. The BMA, Bahrain's central bank,, is the sole regulatory authority for the Bahrain Stock Exchange (BSE). The Governor of the BMA chairs the BSE Board of Directors, but the BSE operates as an independent corporate entity. Dow Jones Indexes and the Bahrain Stock Exchange launched the Dow Jones Bahrain Index on July 5, 2005. Gulf Cooperation Council (GCC) firms and citizens are permitted to own up to 100 percent of companies listed on the BSE. Non-GCC firms/citizens may own up to 49 percent of listed companies. Under the terms of the U.S.-Bahrain Bilateral Investment Treaty (BIT) and the

U.S.-Bahrain Free Trade Agreement (FTA), U.S. investors are eligible for most-favored-nation treatment and national treatment (or GCC) treatment beginning January 1, 2005, (with an exception for any in-kind limitations applied to Bahraini, GCC, or third national investors). If discrepancies occur, U.S. firms/individuals are encouraged to contact the U.S. Embassy.

In March 2004, as part of an effort to stimulate the insurance industry and reinforce Bahrain's position as a major insurance center in the Middle East, the Bahrain Monetary Authority (BMA) lifted the requirement that foreign insurance brokers and loss adjusters partner with a local company. These foreign firms, which were previously required to have at least 51 percent Bahraini-ownership, are now permitted to operate with 100 percent foreign-ownership. The BMA is holding consultations on further reform in areas such as captive insurance, solvency, business conduct, risk management and financial crime, enforcement, BMA reporting and public disclosure, intermediaries, and Islamic insurance. Legislation to transform the BMA into an internationally recognized Central Bank is currently under study by the government.

Taxation and import laws apply equally to Bahraini and foreign-owned companies, and foreign investors must comply with the same requirements and legislation, as do local firms.

In anticipation of the GCC Customs Union, Bahrain reduced customs tariffs to five percent in January 2002 for imported goods, with exceptions for alcohol (125 percent) and tobacco (100 percent), and entirely exempted customs duties for a list of 417 food and medical items. In December 2005, the GCC agreed to extend until 2007 a transition period to unify regional customs tariffs at 5 percent, compared to the current 4 to 15 percent.

Bahrain requires that pharmaceutical products be imported directly from a manufacturer with a research department and that the products be licensed in at least two other GCC countries, one of which must be Saudi Arabia. Drugs and medicines may be imported only by a drug store or pharmacy licensed by the Ministry of Industry and Commerce (MOIC) after approval by the Ministry of Health. Bahrain prohibits the importation of weapons (except under special license), pornography, wild animals, radio-controlled model airplanes, foodstuffs containing cyclamates, and children's toys containing methyl chloride (and other articles declared harmful by the Ministry of Health). Bahrain is also taking steps to ban the import of 127 chemicals. In response to the threat of Avian Influenza, Bahrain has banned the importation of live birds. Bahrain currently imports poultry meat only from those countries certified free of Avian Influenza by the World Health Organization.

Bahrain has phased out subsidies for export industries, but

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permits duty-free importation of raw materials for export products and of equipment and machinery for newly established export industries. All industries in Bahrain, including foreign-owned firms, benefit from government-subsidized utilities.

Periodically, foreign firms experience difficulty obtaining required work permits and residence visas for expatriate employees due to the Bahraini government's efforts to promote greater numbers of Bahraini citizens in the workforce. However, this does not appear to be a matter of high-level policy, and often can be resolved on a case-by-case basis. Where problems occur, U.S. businesses are encouraged to apply to the highest levels of the concerned ministries, and to consult the U.S. Embassy. Furthermore, legislation reforming Bahrain's labor market has been proposed and is currently pending approval from Bahrain's legislative branch, the National Assembly.

Bahrain offers several advantages to U.S. and other foreign investors, including a Bilateral Investment Treaty with the United States (in force as of May 2001) and a bilateral Free Trade Agreement (FTA) signed in September 2004, and ratified by both legislatures in 2005. FTA entry-into-force is pending Bahraini implementing legislation in the area of intellectual property rights (IPR).

The government actively seeks Bahraini and foreign private investments in large infrastructure projects. Previously, most such activity (other than hotels) was funded by development agencies from other Gulf countries (particularly Kuwait, UAE, and Saudi Arabia). Foreign-owned companies are eligible for partial financing from the state-owned Bahraini Development Bank (BDB), if they meet certain criteria such as providing training and employment to a significant number of Bahrainis. BDB's capitalization was increased from \$26.5 to \$132.6 in 2005, part of government's effort to increase funding for new businesses and investments, and offering fast-track, loans to Bahraini entrepreneurs. The BDB has also launched an Islamic Financing facility, reflecting the growing demand for Islamic financial instruments and products.

## ----- A.2 Conversion and Transfer Policies -----

Bahrain has no restrictions on the repatriation of profits or capital and no exchange controls. Bahrain's currency, the Bahraini Dinar (BD), is fully and freely convertible at the fixed rate of USD 1.00 = BD 0.377 (1 BD = \$2.659). There is no black market or parallel exchange rate. Foreign exchange is readily available and a devaluation of the Bahraini Dinar over the next year is highly unlikely. There are no restrictions on converting or transferring funds, whether or not associated with an investment. MPs have submitted a proposal imposing a one percent increase of money transferred out of Bahrain, claiming that an annual average of \$39.8 million is transferred out of Bahrain.

## ----- A.3 Expropriation and Compensation -----

There have been no expropriations in recent years, and no cases in contention. The U.S.-Bahrain Bilateral Investment Treaty (BIT) protects U.S. investments by banning all expropriations (including "creeping" and "measures tantamount to") except those for a public purpose. In which case, it must be carried out in a non-discriminatory manner, with due process, and prompt, adequate, effective compensation.

## ----- A.4 Dispute Settlement -----

Bahrain has a long-established framework of commercial law. English is widely used, and well-known international (including U.S.) law firms, working in association with local partners, provide expert legal services both nationally and regionally. Fees are charged according to internationally accepted practices. Although only a Bahraini lawyer can argue in a Bahraini court of law, lawyers of other nationalities can and do work on cases.

From May 2001, the U.S.-Bahraini BIT provides for three

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dispute settlement options: 1) submitting the dispute to a local court; 2) invoking dispute-resolution procedures previously agreed upon by the national or company and the host country government; and 3) submitting dispute for binding arbitration to ICSID (International Center for Settlement of Investment Disputes) or any arbitral institution agreed upon by both parties.

The GCC Commercial Arbitration Center, established in 1995, serves as a regional specialized body providing arbitration services. It assists in resolving disputes between GCC companies or between other parties and GCC companies. The Center implements rules and regulations in line with accepted international practice. Thus far, few cases have been brought to arbitration. The Center conducts seminars, symposia, and workshops to help educate and update its members of any new arbitration related matters. The Center's contact details are as follows:

GCC Commercial Arbitration Center  
P.O. Box 2338  
Manama, Kingdom of Bahrain  
Tel: (973) 17-214-800  
Fax: (973) 17-214-500  
Website: [www.gccarbitration.com](http://www.gccarbitration.com)  
Email: [arbit395@batelco.com.bh](mailto:arbit395@batelco.com.bh)

Arbitration procedures are largely a contractual matter. Disputes are historically referred to an arbitration body as specified in the contract, or to the local courts. Increasingly, Bahraini companies, in dealings with both local and foreign firms, include arbitration procedures in their contracts. Most commercial disputes are resolved privately without recourse to the courts or formal arbitration. Bahraini law is generally specified in all contracts for the settlement of disputes that reach the stage of formal resolution. Occasional lawsuits against individuals or companies for nonpayment of debts have been adequately handled by Bahrain's court system. The guidelines laid down by the International Chamber of Commerce (ICC) in Paris are generally respected, and disputes have been occasionally referred to arbitration at the ICC in Paris. Bahrain is a signatory to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitration Awards.

#### ----- A.5 Performance Requirements and Incentives -----

There are no special performance requirements imposed on foreign investors. This is reinforced by the U.S.- Bahraini BIT, which forbids mandated performance requirements as a condition for the establishment, acquisition, expansion, management, conduct or operation of a covered investment. Foreign and Bahraini-owned companies must meet the same requirements and comply with the same environmental, safety, health, and other labor requirements. Officials at the Ministries of Labor and Industry and Commerce to supervise, on a non-discriminatory basis, companies operating in Bahrain.

Industries must be set up in identified industrial areas. An Environmental Impact Statement (EIS) must be filed by all manufacturing facilities. After one complete year of operation, a manufacturing facility is eligible for relief from tariffs imposed by other GCC states on imported goods.

#### ----- A.6 Right to Private Ownership and Establishment -----

In principle, private entities may freely establish, acquire, and dispose of interests in business enterprises, subject to the limitations noted in this chapter.

The U.S.-Bahrain FTA was ratified in 2005. The agreement seeks to expand and promote the scope of economic, commercial, investment, and trade relations between the two countries. Bahrain can benefit from increased investment in the country, while U.S. investors in Bahrain will enjoy open access to Bahrain.

The U.S.-Bahrain Bilateral Investment Treaty (BIT) provides benefits and protection to U.S. investors in Bahrain, such as most-favored-nation treatment and national treatment, the

right to make financial transfers freely and without delay, international law standards for expropriation and compensation cases, and access to international arbitration. The BIT guarantees national treatment for U.S. investments across all sectors, with exceptions for ownership of television, radio (or other media), fisheries, and privatization of oil dredging or exploration. Bahrain also provides most-favored-nation or national treatment status to U.S. investments in air transportation, the buying or ownership of land, and the buying or ownership of shares traded on the Bahrain Stock Exchange (BSE). Where problems occur, U.S. businesses are encouraged to apply to the highest levels of the concerned ministries, and to consult the U.S. Embassy.

Because of the national treatment offered American firms in the Bilateral Investment Treaty (BIT), American firms interested in selling products exclusively in Bahrain are no longer required to appoint a commercial agent, though they may opt to do so anyway. A commercial agent is any Bahraini party appointed by a foreign party to represent the foreign party's product or service in Bahrain.

Bahrain permits 100 percent foreign-ownership of new industrial entities and the establishment of representative offices or branches of foreign companies without local sponsors. Wholly foreign-owned companies may be set up for regional distribution services and may operate within the domestic market as long as they do not exclusively pursue domestic commercial sales. Private investment (foreign or Bahraini) in petroleum extraction is permitted only under a production-sharing agreement with BAPCO, the state-owned petroleum company.

Since January 2001, foreign firms and GCC nationals may own land in Bahrain. Non-GCC nationals may now own high-rise commercial and residential properties, as well as property in tourism, banking, financial and health projects, and training centers, in specific geographic areas.

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A.7 Protection of Property Rights  
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The Bahraini legal system adequately protects and facilitates acquisition and disposition of property rights. The concept of a mortgage exists, and there is a recognized and reliable system of recording such security interests. However, there is currently no mortgage law that guarantees lenders the right to repossess property in case of mortgage non-repayment.

The U.S.-Bahrain FTA commits Bahrain to enforce world-class IPR protection. Bahrain signed the Berne Convention for the Protection of Literary and Artistic Works and the Paris Convention for the Protection of Industrial Property in 1996. Bahrain has joined the Patent Cooperation Treaty, Madrid Agreement, WIPO Copyright Treaty, WIPO Performances and Phonograms Treaty, the Rome Convention, the International Convention for the Protection of New Varieties of Plants and the Patent Law Treaty.

The Budapest Treaty, Trademark Law, and Convention Relating to the Distribution of Programme-Carrying Signals Transmitted by Satellite are currently before Parliament.

The following pending legislation will bring Bahrain's local IPR legislation in compliance with WIPO and is awaiting legislative approval:

- trade secrets;
- copyright and related rights;
- designs of integrated circuits;
- geographic indicators;
- individual drawings and designs;

-- patents and utility models;  
-- plant varieties;  
-- trademarks.

The government's copyright enforcement campaign began late 1997 and was based on inspections, closures, and improved public awareness. The campaign targeted the video, audio and software businesses with impressive results. Bahrain has been aggressive in combating video and audio piracy. However, software piracy, which has shifted from retail to end-user violations, remains problematic.

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There are no technology transfer requirements that force firms to share or divulge technology through compulsory licensing to a domestic partner, nor are firms forced to commit to undertake research and development activities in Bahrain.

#### ----- A.8 Transparency of Regulatory System -----

In October 2002, Bahrain implemented a new government procurement law that establishes the basic framework for a transparent, rules-based government procurement system. It provides that certain procurements may be conducted as international public tenders open to foreign suppliers. To implement this law, a tender board, chaired by a Minister of State, was established in January 2003 to oversee all government tenders and purchases. In the past, government-tendering procedures for large projects were not highly transparent. U.S. companies sometimes reported operating at a disadvantage compared with other international firms. Contracts were not always decided solely based on price and technical merit, and selected, pre-qualified firms were occasionally invited to bid on major government tenders. As of January 2003, however, the Tenders Board processes all tender decisions valued at \$26,525 (BD 10,000) or higher. Individual ministries and departments may still process projects valued at less than \$26,525 (BD 10,000). U.S. firms report that the process is greatly improved over the previous system, though some challenges remain. A local representative with strong connections may still be important in the bidding process.

In the case of manufacturing enterprises, bureaucratic procedures and red tape created stumbling blocks mainly due to the lack of coordination between government ministries, which must sign off at one stage or another of the licensing procedure.

In an attempt to streamline licensing and approval procedures, the Ministry of Industry and Commerce opened the Bahrain Investors Center (BIC) in October 2004 for both local and foreign companies seeking to register in Bahrain.

This high-tech, customer-friendly and easy to find facility, located in one of Bahrain's largest malls is part of a larger effort by the government to attract firms to use Bahrain as their "Gateway to the Gulf" by setting up regional operations here. The BIC is designed as a "one-stop shop" providing all commercial licensing and registration services. It houses representatives from all relevant ministries (over a dozen) and private sector representatives from the telecommunication, legal, banking, and consulting industries under one roof.

Officials from the Ministry note that the BIC can process and issue 80 percent of commercial registration applications within 24 hours and 10 percent of commercial registrations within five working days. The remaining 10 percent, mostly those having to do with health, environment, power and other essential services, are processed separately according to sector specific regulations and licenses are issued on a



case-by-case basis.

Draft legislation is proposed by the Cabinet and by both the lower house (Council of Representatives) and upper houses (Shura Council) of the National Assembly. Once the government produces a draft law and submits it to the lower and upper houses of the National Assembly for approval, it is then passed to the Cabinet for the King's signature. After the King signs the law, the law is published in the Public Gazette and it enters into force.

Entrenched local business interests with government influence can cause problems for potential competitors. Interpretation and application of the law sometimes varies by ministry, and may be dependent on the stature and connections of an investor's local partner, if one exists.

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#### A.9 Efficient Capital Markets and Portfolio Investment

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Consistent with the government of Bahrain's liberal approach

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to foreign investment, government policies facilitate the free flow of financial resources. Foreigners and Bahrainis alike have ready access to credit on market terms. Generally, credit terms are variable, but often are limited to 10 years for loans under \$50 million. For major infrastructure investments, banks will often offer to assume a part of the risk, and Bahrain's onshore and offshore banks have shown extensive cooperation in syndicating loans for larger risks. Generally, Bahrain's banks are described as hungry for solid investment opportunities.

The banking system is sound, and undergoes examination and supervision by the Bahrain Monetary Agency (BMA), which has a solid international reputation. Due to precautionary measures taken by the New York headquarters of Citibank during the last quarter of 2002, Citibank pulled about \$30 billion from their Bahrain based offshore operations due to "Operation Iraqi Freedom" (OIF). This resulted in an apparent 33.4 per cent decline in Bahrain's offshore banking units' (OBU's) March 2003 assets over March the previous year (\$58.82 billion in 2003 compared with \$88.4 in 2002). In May 2003, Citibank returned to Bahrain the \$30 billion it had pulled out due to OIF.

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#### A.10 Political Violence

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Bahrain experienced intermittent civil unrest in the mid 1990,s. These disturbances were directed primarily against the government, but in a few cases expatriate property, including homes, vehicles, and places of business were damaged or destroyed, and several South Asian workers were killed. Although the situation improved steadily after 1997, the 2002 upsurge in violence between Israelis and Palestinians sparked anti-Israeli and anti-American demonstrations in Bahrain. The protests peaked in April 2002 when a mob attacked the U.S. Embassy and set fire to U.S. Government vehicles. Since that incident, large-scale protest activity has subsided. Youths rioted in downtown Manama on December 31, 2002 and inflicted significant damage to public and private property. The 2003 Iraq war sparked a few political protests near the American and British Embassies in which some private and government property was damaged.

In October 2003, the Bahraini Court charged 10 youths over violent protests by a concert against a Lebanese singer whose performance was deemed immoral by Islamists. Protesters threw petrol bombs during pitched battles with police, damaging private vehicles.

In March 2004, rioters protesting liquor sale attacked a

restaurant in Bahrain burning and damaging private owned vehicles. Reportedly, the rioters also set two cars ablaze and smashed windows of several vehicles. The foreign co-owner of the restaurant estimated a \$15,262 (BD 5,000) worth of physical damage on the property.

The Bahrain Chamber of Commerce and Industry (BCCI) have recently announced their intentions of forming a business-lobby that advocates for and on behalf of the private sector to defy extremism in the Council of Representatives, the lower house of Parliament.

A number of sometimes violent demonstrations and protests occurred in the last quarter of 2005 and in early 2006. Demonstrators are demanding government action on several social issues and the release of protesters arrested in earlier clashes.

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A.11 a. Corruption  
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According to U.S. firms, high-level corruption is sometimes an obstacle to foreign direct investment and contracting, particularly in the contract-bidding process and in operating investments. In the case of some high-value contracts, government-tendering procedures have not always been transparent and contracts have not always been decided on the basis of price and technical merit. However, petty corruption is relatively rare in Bahrain. The bureaucracy is sometimes inefficient but it is honest. Giving or accepting a bribe is illegal, although the relevant laws are rarely enforced. Officials have been dismissed for blatant

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corruption, but it is never so stated officially; no one has been tried in court for corruption. The King and Crown Prince have come out publicly in favor of reducing corruption and some Ministries have initiated clean-up efforts to reduce the problem. The expatriate business community is cautiously optimistic that there is growing transparency in the government procurement process. A new law to thoroughly revamp government procurement procedures went into effect in January 2003. Bahrain is not a signatory to the OECD Convention on Combating Bribery.

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b. Bilateral Investment Agreements  
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Bahrain and the U.S. signed a bilateral investment treaty (BIT) in September 1999, the first BIT between the United States and a GCC state. The agreement entered into force in May 2001.

As of July 2003, Bahrain had bilateral investment protection agreements in place with Algeria, China, Egypt, Jordan, Malaysia, Morocco, Syria, Philippines and the UK. Bahrain has economic and commercial cooperation agreements with Australia, Bangladesh, China, Egypt, France, Greece, India, Iraq, Jordan, Morocco, the Netherlands, Russia, Singapore, South Korea, Syria, Tunisia, Turkey and the UK. Bahrain has air transportation tax agreements with China, France, Greece, Singapore, Turkey, UK, U.S. and Yemen, and two transportation agreements with Syria. Bahrain has concluded double taxation agreements with Egypt, France, India, Jordan, Malaysia, Morocco, the Philippines, Thailand and Tunisia.

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c. OPIC and Other Investment Insurance Programs  
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On April 25, 1987, Bahrain and the U.S. Government signed an agreement regarding activity in Bahrain by the Overseas Private Investment Corporation (OPIC). The agreement opened the way for extension of such OPIC facilities as investment

insurance, reinsurance, and investment guarantees to U.S. private investors interested in doing business in Bahrain.

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d. Labor  
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The Bahrain labor force is estimated at 320,000, nearly two-thirds of whom are expatriates. The government has publicly recognized unemployment as a major social and political issue. Although the government has not maintained official unemployment statistics, the United Nations Development Program (UNDP) estimates unemployment among Bahrainis to be 15 to 20 percent and as high as 30 percent in some Shiite villages. One of the government's primary initiatives for combating unemployment is "Bahrainization," or the replacement of expatriate workers by national ones. In 2002 the Government of Bahrain reserved certain professions, including heavy vehicle drivers, for Bahraini nationals.

Crown Prince Salman launched a national debate in 2004 that was aimed at creating a new economic, labor, education and training vision for the Kingdom.

Draft labor reform legislation is currently under review at the National Assembly's Lower House. The legislation calls for the establishment of a Labor Market Regulatory Authority (LMRA) and a Labor Fund. The proposed reform effort would establish a phased fee to be paid to the government by employers of foreign workers.

In 2005, the government allocated approximately \$80 million for phase one of the King's National Employment Program (NEP) that serves as a training fund for unemployed Bahrainis. The government reported that almost 900 private firms took part in this project by offering either training or recruitment opportunities. At the close of the NEP registration period, 12,172 Bahrainis registered to participate in the program. The government is seeking to establish Bahrain as a regional center for human resource development. Bahrain has over 50 training institutes that offer training in a variety of areas such as hospitality, information technology, business studies, English language studies, and banking. Major training institutes include the Bahrain Institute for Banking and Finance (BIBF), Bahrain Training Institute (BTI), KPMG, and the British Council. Both educational and vocational training curricula have been criticized recently for not

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adequately preparing Bahrainis for the workforce. The government is making concerted efforts to turn this situation around.

Another major step that the government is undertaking is development of the labor union movement. Unions first became legal in 2002 and the government is in the process of bringing its labor codes into compliance with ILO core labor standards.

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e. Foreign Trade Free Zones/Ports  
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Mina Salman, Bahrain's major port, provides a free transit zone to facilitate the duty-free import of equipment and machinery. The North Sitra Industrial Estate is an industrial free zone and another one is planned for Hidd. Foreign-owned firms have the same investment opportunities in these zones as Bahraini companies.

A 1999 law requires that investors in industrial, or industry-related zones launch a project within one year from the date of receiving the land, and development will have to conform to the specifications, terms and drawings submitted with the application. Changes are not permitted without approval from the Ministry Industry.

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f. Foreign Direct Investment Statistics  
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Foreign investments in Bahrain range from partial foreign ownership of large parastatals in the oil and telecommunications sectors to restaurant franchises. As the economy is virtually tax-free, the government does not maintain detailed statistics of foreign direct investment flows. The largest, by value, of foreign holdings in Bahrain include:

-- Aluminum Bahrain (ALBA) and the Gulf Petrochemical Industries Complex (GPIC), each of which are owned as joint investments by several Gulf states.

-- The Arab Shipbuilding and Repair Yard (ASRY), which is jointly owned by Bahrain, Kuwait, Saudi Arabia, the United Arab Emirates, Qatar, Iraq (participation frozen) and Libya (participation frozen).

-- U.A.E. based Majid Al Futtaim Investments are investing \$1.09 billion in the new Bahrain City Center Mall and cineplex.

-- Bahrain National Gas Company (BANAGAS) is owned by Bahrain, a Saudi investment firm and Caltex Bahrain.

-- Amwaj Islands tourism project is jointly owned by Bahraini, Kuwaiti and Saudi corporate and individual investors.

-- The \$600 million tourism project of Al Areen Desert Spa and Resort is owned by the Government of Bahrain, various private investors and Gulf Finance House.

-- The development of the \$1.3 billion Bahrain Financial Harbor project, owned by Gulf Finance House, personal and corporate GCC investors.

According to U.S. Embassy records, approximately 180 U.S. companies were operating in one form or another in Bahrain as of January 2006. U.S. investments in Bahrain are divided by sectors, and are listed below:

#### Information Technology

-- In July 2005, Microsoft, Bahrain Training Institute (BTI), Esterad Investment Company, Bahrain Internet Society (BIS), and the Bahrain Institute of Technology and Bahrain Development Bank, signed a \$1.3 billion deal with the Bahrain Financial Harbor development to co-market IT, upgrade skills, and support services of the Bahrain Financial Harbor Development. This project was endorsed by the Ministry of Labor.

-- In November 2004, Microsoft Bahrain launched its new 'B-OnLine' initiative. The B-OnLine initiative is designed to

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address the obstacles faced by Bahraini SMEs in acquiring and using the latest technologies for the benefit of their day-to-day operations. Microsoft will work with the Ministry of Commerce, Batelco, and Bank of Bahrain and Kuwait to form an initiative consortium that will provide the necessary advice and value-added services to facilitate the acquisition of B-OnLine.

-- In March 2004, Microsoft and BDO Jawad Habib were awarded Bahrain's e-investor project contract. The system offers investors and potential investors an online one-stop-shop government database of information and services.

-- Cisco Systems has entered into a significant technology partnership with Bahrain's Amwaj Telecom, signed in September of 2005, to provide next generation network infrastructure for Amwaj Islands, Smart City, the technological backbone of Amwaj Islands.

## Construction/Engineering

-- Skidmore, Owings & Merrill LLP was selected by the Kingdom of Bahrain to develop a set of comprehensive national planning strategies and is preparing a strategy to address and integrate Bahrain's physical, economic, social and environmental development, focusing mostly on land-use and development.

-- Great Lakes Dredge & Dock is performing dredging operations in conjunction with the \$464 million new Shaikh Khalifa Port in Hidd Industrial area. A \$105 million dredging contract has also been awarded to US-Bahraini joint venture Great Lakes - Nass (Great Lakes Dredge & Dock and Nass Group).

-- Parsons provided the design and supervising engineers for a \$26 million-flyover project in Bahrain's Seef area.

-- Binnie, Black and Veatch International Limited are the consultants for Phase 3 of the Hidd (Power) and Desalination Complex. The project was estimated to cost \$400 million.

-- Turner International and Atkins are set to start construction on the \$1.5 billion Bahrain Business Bay. The Four Seasons hotel will be the centerpiece of the development, and is expected to be the tallest building in Bahrain. Skidmore, Owings & Merrill has completed the master plan for the first phase of the project, which is being developed by Bahrain Bay Development, a joint venture between Arcapita Bank and a Bahrain-based investment group.

-- General Electric Energy, Stone and Webster and Chicago Bridge and Iron Company were among five companies that participated in the feasibility study of Kuwait Finance House's \$1.3 petrochemical plant project. The planned facility will be capable of providing total power capacity of 1,000MW per hour and 30 million gallons of water per day while simultaneously producing seven key petrochemical products. These include: 345,000 tons of ethylene dichloride (EDC), 564,000 tons of caustic soda, 231,000 tons of propane, 150,000 tons of butane, and 44,000 tons of gasoline in addition to some quantities of hydrogen and sulfur. Approximately 255 million standard cubic feet per day of natural gas will be required to operate the complex at full capacity. The complex is expected to be completed by the first quarter of 2008.

-- Bechtel was responsible for the Engineering Procurement Construction and Management (EPCM) of aluminum smelter ALBA's \$1.7 billion fifth pipeline expansion project.

-- Parsons Global was appointed as consultants to the Bahrain District Cooling Company (Tabreed Bahrain). The technology is aimed at reducing electricity consumption in Bahrain by 70 percent.

## Financial Services

-- The Bahrain Monetary Agency (BMA) has granted a license to global insurance brokerage and consulting giant, Aon Corporation, to establish Aon Re Middle East, an insurance brokerage firm in Bahrain.

-- A joint venture between Bahrain-based Ithmaar Bank, US-based Overland Capital Group, Bahrain-based Gulf Finance House BSC, and Kuwait-based Gulf Investment House established

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The First Leasing Bank, with authorized capital of \$50 million and paid-up capital of \$10 million.

## Health

-- Joslin Diabetes Center Affiliate - Bahrain (a partnership between the Joslin Diabetes Center and local businessmen). Joslin Diabetes Center Bahrain has injected a total of \$9

million, and is expected to increase its investments with its new expansion plans.

-- Accenture was awarded a contract to structure the Ministry of Health's Information and Communication Technology Strategy (ICT), revamping the Ministry of Health's management and organizational structure, which will include interrelated systems, functional, business, and administrative requirements, as well as technical infrastructure requirements. The Ministry of Health's E-Health project initiative has yet to be finalized by the Ministry of Cabinet Affairs.

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Web Resources  
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<http://www.buyusa.gov/bahrain/en/>

<http://www.bahrainedb.com/>

<http://www.bahraintenders.gov.bh>

[http://www.bahrainchamber.org.bh/english/main .htm](http://www.bahrainchamber.org.bh/english/main.htm)

<http://www.commerce.gov.bh/>

<http://www.bma.gov.bh/cmsrule/bmaindex.jsp>

<http://www.ustr.gov>

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